



Agenda Report

19-800

Agenda Date: 8/27/2019

REPORT TO COUNCIL

SUBJECT

Action on a Resolution Establishing the Average Per-Acre Land Values and Parkland In Lieu Fee Schedule for New Residential Development FY2019/20

EXECUTIVE SUMMARY

On May 8, 2018, prior to adoption of updated fees for FY2018/19, Council directed staff to conduct additional outreach, discussion and review of the Quimby Act (Quimby) and Mitigation Fee Act (MFA) fees and to consider the concerns expressed by residential developers regarding the proposed fee increase. The City held meetings with the community and residential development stakeholders on June 11 and 27, 2018. Following the meetings, staff reviewed the land appraisal with its appraiser, analyzed the concerns related to the park inventory and park construction costs, and contracted with Willdan Financial Services, Inc. to complete an update of the Parks and Recreation Facilities Development Impact Fee Study.

The Parks and Recreation Facilities Development Impact Fee Update Study dated April 9, 2019 (Attachment 1) provides a justification for fees in lieu of Parkland Dedication. The calculations justify fees between 35%-46% higher than the existing 2017 fees for Quimby, and between 41% and 52% higher for MFA. The justification for the higher fee is primarily due to:

- a) The adjustment made for park construction costs increasing from the 2014 value of \$319,000 per acre to \$1.335 million per acre in 2018, and
- b) The higher land valuation given in the 12-31-2017 appraisal report (Attachment 2).

An administrative draft of the Nexus Study and related information was posted on the City website in early January 2019. Stakeholders and community members were sent invitations via email and eNotify regarding the public input period (January 14-February 26, 2019), and meetings with City staff scheduled on January 22 and February 26, 2019. Twenty-seven pages of public comment, questions and answers related to fees due in lieu of parkland dedication were posted on the City website February 15 (Attachment 3) which also address public comments (Attachment 4) related to the Nexus Study, residential densities, land valuation, and the cost to build parks and recreational facilities. The City's Quimby standard of developer requirement to dedicate 3 acres per 1,000 new residents has not changed since 2014; and the City's Mitigation Fee Act standard is now 2.6 acres per 1,000 new residents.

Since the fees due in lieu of parkland dedication is justified to increase significantly and developers were concerned about the impact fees have on their near term projects remaining financially viable, staff has developed policy options for Council consideration. The options include approval of fees at 100% cost recovery, or to approve fees less than 100% cost recovery, or to phase the increase to 100% cost recovery over a period of time. At the April 9, 2019 meeting, City Council opened the

public hearing, and took testimony from one member of the public, then Council voted to continue the item to May 21, 2019. On May 21, 2019, the item was continued without further discussion to August 2019. In conformance with state law, notice of the August 27, 2019 Council hearing was published in the *Weekly*, a newspaper of general circulation, on August 14 and August 21, 2019.

Council action requires adoption of a Fee Resolution (Attachment 5) that will approve the required statutory findings of the Nexus Study as the basis for the Quimby and MFA fees; establish the per-acre land values; set fees at some percentage of City cost recovery up to 100%; and determine the implementation schedule (including potential phasing) and dates when the new fee amounts will apply to new residential project applications as they are “deemed complete.”

BACKGROUND

The City completed its first “Public Facilities Impact Fee Study” (“Nexus Study”) on June 25, 2014. The Nexus Study, prepared by Willdan Financial Services, Inc., set forth a reasonable methodology and analysis required for the determination of the impact new housing development has on the need for and costs associated with additional capital parks and recreation facilities improvements in the City. The Nexus Study uses an “existing inventory demand standard” translated into facility costs per capita to determine new development’s fair share of planned facility costs. A cost standard provides a reasonable method for converting disparate types of facilities, in this case parkland and special use recreational facilities, into a single measure of demand (capital cost per capita). The cost standard is based on the existing inventory of parks and recreation facilities. New development would fund the expansion of facilities at the same rate that existing development has provided facilities to date. There are several data points used in the calculation of fees due in lieu of parkland dedication including population, housing density, existing parkland inventory, current level of service, land value and parkland improvement value, among others.

In July 2014, Council adopted Ordinance No.1928 which added [Chapter 17.35](#) <http://www.codepublishing.com/CA/SantaClara/> “Park and Recreational Land” to the Santa Clara City Code to require new residential developments after September 13, 2014 to provide developed park and recreational land, and/or pay a fee in-lieu thereof pursuant to the Quimby Act (“Quimby”) and/or the Mitigation Fee Act (“MFA”). On February 24, 2015, the Council amended Chapter 17.35 to remove the 1-acre public parkland dedication prerequisite for developers to receive fee credit. In June 2016, Council adopted supplemental instructions for the appraisal of land valuation, required annually, with a valuation date of December 31 each year. Based on the City Code, the target date for adoption and implementation of municipal fees is prior to the start of each fiscal year on July 1st. However, due to periodic requests by developers of new housing projects for additional review and discussion of the annual land valuation, fee updates have been delayed and set by Council resolutions in October 2014, August 2016, and May 2017.

On April 24, 2018, as part of the annual update of the Quimby and MFA fees, a fee resolution was proposed for Council consideration. Following comment from the development community, on May 8, 2018, Council directed staff to conduct additional outreach, discussion and review of the item. The key concern expressed by the development community was the amount of increase of the fee which was between 42% and 47%.

DISCUSSION

Following the May 8, 2018 Council direction, the City held meetings with the community and residential development stakeholders on June 11 and 27, 2018. Questions and comments were raised related to the various data points used in the calculations including:

- persons per household,
- park facilities included in the inventory,
- comparable properties used in the land valuation appraisal,
- desire to use alternative valuations for existing park improvements/assets (insurance value, depreciation, reduction by maintenance needed, etc.), removal of non-standard assets from calculation of improvement value (Agnews' Historic Park buildings),
- differences in park size, and
- comparison of Santa Clara's fees to those used in other jurisdictions.

Following the meetings and to address concerns raised, staff reviewed the land appraisal, methodology and assumptions with its appraiser, analyzed the park inventory and park construction costs, and contracted with Willdan Financial Services, Inc. to complete an update of the Parks and Recreation Facilities Development Impact Fee Study.

An administrative draft of the Parks and Recreation Facilities Development Impact Fee Update Study (Attachment 1) and related information was posted on the City website in early January 2019. The Nexus Study 2018 findings provide a justification for fees in lieu of Parkland Dedication. The calculations justify fees between 35%-46% higher than the existing 2017 fees for Quimby, and between 41% and 52% higher for MFA. The justification for the higher fee is primarily due to:

- a) the adjustment made for park construction costs increasing from the 2014 value of \$319,000 per acre to \$1.3 million per acre in 2018, and
- b) the higher land valuation given in the 12-31-2017 appraisal report (Attachment 2).

Stakeholder and community members were sent invitations via email and eNotify regarding the public input period (January 14-February 26, 2019), and meetings scheduled on January 22 and February 26, 2019. Twenty-seven pages of questions and answers (Attachment 3) related to fees due in lieu of parkland dedication were posted on the City website on February 15. The questions and answers address the following topics:

- Nexus Study
- Residential densities
- Land valuation
- Cost to build parks
- Recreational facilities.

Community and developer comments and letters received during the public comment period are found in Attachment 4.

The Building Industry Association (BIA) provided a majority of the comments. In summary, these are the key comments/issues from the BIA:

- Inclusion of non-city owned recreation facilities as part of the fee analysis
- The value of parkland improvements
- The Fee should be based on the current value of a depreciated City park
- The appraisal process and accounting for new fees
- Reduced fees for smaller units
- Concern about the feasibility of residential development in Santa Clara due to the overall cost

The consideration of the Fee Resolution was set for public hearing on April 9, 2019. After opening the hearing, taking testimony from one member of the public, Council continued the item to May 21, 2019 to provide time for additional policy development. On May 21, 2019, the item was continued to August 2019 without further discussion. In conformance with state law, notice of the August 27, 2019 Council hearing was published in the *Weekly*, a newspaper of general circulation, on August 14 and August 21, 2019.

Fee Components

There are two key components within the fee. One is the Land Valuation analysis which is based on an appraisal and is conducted on an annual basis. The other is cost of park improvements. This had been included in the initial fee at \$319,000 per acre, which is approximately 20% of the actual cost to construct an acre of park.

Land Valuation Analysis.

Under the City's Quimby standard, the requirement for new housing development is to dedicate 3 acres of parkland per 1000 new residents (unchanged since 2014) and based on the current Nexus Study the City's Mitigation standard is 2.6 acres per 1000 new residents. City Code Section 17.35.040 requires that an annual fair market valuation of land be determined for each of the City's Zip Code areas so that the value of land that would otherwise need to be dedicated as part of a new residential development for public parkland can be computed; this is computed based on standard appraisal practices and supplemental instructions adopted by Council in June 2016. Table 1 below illustrates land values used in fee calculations; values appraised lower in 2016.

Table 1
Land Valuation.

	2014	2015	2016	2017	2018	2019
95050	\$3,658,000	\$3,620,000	\$3,315,000	\$3,738,000	No update 2017 values	No update 2017 values
95051	\$3,658,000	\$3,800,000	\$3,583,000	\$3,993,000		
95054	\$3,658,000	\$3,685,000	\$3,669,000	\$4,035,000		

The City retained an independent real estate appraiser (Frank Schmidt) to provide a fair market value of land opinion (as of December 31, 2017) for use in the calculation of the in-lieu fees for FY2018-19 (Attachment 2). The valuation report was made available on March 9, 2018, posted on the City website for a two-week review and comment period, and stakeholders were notified by email regarding the fee resolution and hearing date. No comments were received by March 23, 2018, but developers and community members submitted comments after that date, and City staff met with interested parties at meetings on June 11, 2018 and June 27, 2018. Following the June 11, 2018 meeting, the appraiser reviewed the comments and found that the appraisal analysis and report did in fact account for park impact fee adjustments where warranted; value differences between ZIP codes in Santa Clara were not highly subjective; factual metrics were used to make objective adjustments accounting for market feedback, anecdotal information, comparison of values/rents, and comparison of median and average selling prices among other points; and concluded that no

additional adjustments were warranted.

Due to the extensive review in 2018 of the 12-31-2017 land valuation, a new appraisal with a valuation date 12-31-2018 was not commissioned. The 12-31-2017 opinion is used in the 2019 Nexus Study Update.

The most significant comments received regarding the land appraisal were how the increase in fee would affect the value of a property. Given that appraisal reports are retrospective (deal with prior year's transactions and comparables), any fee changes adopted now by Council in late 2019 will be reflective in future land appraisal valuations. While staff's consultant did agree with the comment, the potential negative effect of the increases on land valuation in Santa Clara has been a subject of public discussion for over eighteen months, and therefore a contingency for the "potential" affect would have begun to be accounted for in the local market.

Looking ahead, in conformance with the City Code requirement for annual appraisals, a new land valuation appraisal will be conducted in 2020 (valuation date 12-31-2019). It will be reflected in the park in lieu fee resolution for FY2020-21.

Cost of Park Improvements.

In the initial Nexus Study (Willdan 2014), the cost per acre of an improved acre of parkland was estimated to be \$319,000 per acre based on the City's Public Entity Property Insurance Program (PEPIP) replacement valuation. However, that valuation is very low (about 20% of the cost to actually improve a park), and park improvement values have not been analyzed and updated in over 5-10 years. Construction of a new park can't be completed at a \$319,000 per acre cost. Based on previous studies from Kitchell Report, actual construction costs and bids, as well as a third-party estimator, the current range of cost is estimated to be between \$1.3 million to \$1.7 million per acre. Under the Quimby Act, the cost of park improvements and equipment are a credit to the developer against any in lieu fees due. Therefore, use of an accurate and current value of the City's existing park improvements is warranted. Under-valuation of the City's existing park improvements results in less than 100% cost recovery, and thereby underfunding the construction and provision of new parks and recreational assets at the existing level of service.

To validate the cost of new parks, staff completed a multilayer approach including using the data in the Kitchell report, hiring a third-party estimator, and reviewing actual bid prices for park projects in Santa Clara.

Kitchell Report

In 2017, the City retained Kitchell, CEM to complete an inventory of all park and recreation assets for use in the City's Enterprise Asset Management System/Geographic Information System and a Facility Condition Assessment Report ("Kitchell Report"). The Kitchell Report, dated February 21, 2018, provides an estimate of the current replacement cost "as is" of the existing City park sites and building improvements. The report was available on the City website, reported at the Parks & Recreation Commission, and noted and filed by the City Council on April 24, 2018. The executive summary stated that information contained in the report would be used in future updates of the Nexus Study.

The report provides valuable information related to the existing park building and site improvements. There has been concern by the development community that the report overstates the value of

existing park site and building assets and that the use of replacement costs to determine the average cost of building an acre of parkland is inaccurate and included some facilities that were unique, non-standard and would not be incorporated into the future park system. Following the June 11 and June 27, 2018 stakeholder meetings, adjustments were made (subtracted) in the inventory's costs for non-standard park facilities and buildings, such as Agnews Historic Park buildings. As part of this analysis, the average cost to build a park was determined to be \$1.335 million per acre.

Actual Bid Prices

The City made a separate effort to validate the accuracy of the existing park inventory cost data through a comparison to actual bids and current construction costs. While construction costs may be affected by the level of improvements (as an example, sports fields with artificial turf are more expensive than typical improvements), the data shows that on average, the park buildings and improvements value of \$1.335 million per acre is a reasonably conservative amount, with a higher range being supportable (See Table 2). Further, the City contracted with an independent construction cost estimator to review the Kitchell Report analysis which found that the cost to construct new parks and facilities based on the current asset inventory would be well above \$1.3 million per acre and on average in the \$1.8 million per acre range.

Table 2
Park Site and Building Costs.

Park	Description	Cost	Cost per Acre
Central Park Annex (Bill Wilson Jr. Park)	1.5 acres, restroom, picnic area, meadow, landscaping	\$1,464,565	\$976,377
San Tomas & Monroe (Everett N. Eddie Souza Park)	1.61 acres, restroom, playgrounds, picnic meadow, community pathways, landscaping, lot, dog run	\$3,704,850	\$2,301,149
Reed & Grant Street	9 acres, sports field, building, restroom, parking lot, lights, playground, landscaping	\$22,214,500	\$2,468,278
LSAP Parks	3.19 acres, playground, community building, landscaping, pathways, community garden,	\$5,662,824	\$1,775,570

Third Party Estimator

The City contracted with Curry & Brown to provide a Reasonableness Opinion of the probable cost for Park Projects in the City of Santa Clara. The consultant conducted a high-level review of the Kitchell Report and probable cost assumptions for park site improvements and visited 14 parks and 2 trails. Based on their experience and analysis of the various cost factors and current market trends ("General Construction Cost Factor" (1.40); the City's "Cost Index" (1.4); Non-Construction Cost (1.30)) as well as direct costs for pricing various items such as playground equipment, benches,

pavement, concrete work, fountains, fitness equipment, rubber surfacing, fencing etc.; the adjusted value for park improvements was estimated to be \$1.5 million per acre.

In the January and February 2019 public comment period, the Building Industry Association (BIA) continued to maintain that the City was overvaluing its existing inventory of parks and recreational assets due to inclusion of non-city owned facilities, and not accounting for deficiencies or depreciation; however, no alternative value was provided by the BIA. In addition, the Kitchell Report's deficiencies are anticipated preventative maintenance and renewals which may be addressed over a 20-year schedule, and do not render a facility un-useable or without value. In fact, the City is using a variety of funds to repair and replace park site assets and buildings as necessary and has several of these projects underway. Quimby itself allows for use of funds for rehabilitation of existing parks given certain findings. Therefore, the use of replacement cost values provides a "reasonable" estimate for the overall current value of existing park buildings and sites within the park system.

The reality is that the City has not "overvalued" its park improvements assets. Rather, by using an artificially low improvement base amount (\$319,000 per acre), and accounting for construction cost escalation over the past few years without any adjustment to the low base amount, the quantity and quality of future public park assets will be less than what is required to serve new residents at the same level as current park improvements. The City needs to incorporate a higher per acre value for park improvements, or risk not being able to provide the parks needed at the current park standards.

The rationale for inclusion of public park easements, facilities designated by joint use agreement (often constructed, operated and maintained by City) is contained in the February 15, 2019 response to public comments (Attachment 3).

Therefore, based on the data and its analysis, the City is using a conservative estimated cost to build out an acre of parkland in the amount of \$1.335 million for use in the in-lieu fee calculation. Use of this value will result in collection of fees to construct new park site improvements and recreational assets to serve new residents at existing average service levels.

Table 3					
Per Acre Value used in Fee Calculations for Existing Park Improvements.					
2014	2015	2016	2017	2018	2019
\$319,000	no update	no update	no update	no update	\$1,335,000

Fee Components & Nexus Study Update. Willdan Financial Services, Inc. completed a Park and Recreation Facilities Development Impact Fee Study Update, dated January 2019 (Attachment 1). Some of the key components and assumptions are summarized below.

- Park Service Population
- Housing type occupant density
- Park & Recreation Facilities Inventory 2018 Update
- Quimby Act parkland dedication standard
- Mitigation Fee Act standard (2018)

- Land value by ZIP Code area
- Cost of park improvements

The City uses housing type occupant density based on U.S. Census Bureau data as called for in Quimby which shows 2.4 per multifamily unit and 2.98 for single family units. While residential developers of smaller sized units contend that such units should pay lower fees due to lower density, micro units are currently undefined, comprise only 33% of multifamily units, and additional Census data and analysis would be needed to provide an appropriate local representative sample and understanding of the effects of small unit policies on park dedication standards. However, Staff could conduct a study after the upcoming census is completed.

The calculations of the cost per capita for each of the ZIP code areas of the City are found in Attachment 1 Nexus Study Tables 10, 11.a, 11.b, and 11.c. The Nexus Study provides the latest information, analysis and statutory findings required to support the public facilities fee program at 100% cost recovery to address public parks and recreation facilities and capital improvements for future residential development through the 2035 planning horizon. The data used in the Nexus Study Update reflects the most current information available. The fees calculated use an existing inventory demand standard translated into facility costs per capita to determine new development's fair share of parks and recreation facilities. The proposed fees by area and residential development type in comparison to the existing 2017 fees in lieu of parkland dedication are given in Table 4 below.

Table 4
Maximum Justified Fees Due in Lieu of Parkland Dedication.
 Comparison of Existing 2017 to 2019

Area	Project Type	Quimby Act			Mitigation Fee Act		
		Existing Fee 2017	Fee 2019	% Incr.	Existing Fee 2017	Fee 2019	% Incr.
95050	Single Family	\$31,804	\$44,637	40%	\$27,195	\$40,093	46%
	Multi-Family	\$24,566	\$35,949	46%	\$21,007	\$32,290	52%
95051	Single Family	\$34,182	\$46,962	37%	\$29,201	\$42,108	43%
	Multi-Family	\$26,403	\$37,822	43%	\$22,556	\$33,912	49%
95054	Single Family	\$34,946	\$47,345	35%	\$29,845	\$42,439	41%
	Multi-Family	\$26,993	\$38,130	41%	\$23,053	\$34,179	47%

It is acknowledged that the maximum justifiable fees due in lieu of parkland dedication proposed in the attached Fee Resolution represent a significant increase compared to those in effect since 2017. The current justifiable fees and relative increase is primarily due to the increase in the appraised value of land and the increased costs of park improvements, among other minor adjustments. The cost to purchase land as shown in the land valuation analysis date of 12-31-2017 is higher than the

last appraisal date of 12-31-2016. The cost to construct improvements (site and building) in a new park site is now well over \$1.335 million per acre, much higher than the \$319,000 per acre improvement value used and not adjusted since 2014.

Since the fees due in lieu of parkland dedication are justified to increase significantly and developers are concerned about the impact fees have on their near term projects remaining financially viable, staff has developed policy options for Council consideration. The options include approval of fees at 100% cost recovery, or to phase the increase over a period of time, or to approve a fee less than 100% cost recovery. Council action requires adoption of a Fee Resolution (Attachment 5) that will: approve the required statutory findings of the Nexus Study as the basis for the Quimby and MFA fees, establish the per-acre land values, set fees at some percentage of City cost recovery up to 100%, and determine the implementation schedule (including potential phasing), and dates when the new fee amounts will apply to new residential project applications as they are "deemed complete."

Feasibility of Residential Development.

One additional concern that has been communicated by the BIA is the overall cost of residential development, specifically City fees. Their specific concern is that new and updated City fees could make residential development infeasible in the City. Staff is recommending evaluating the effects of total development fee levels on developers' ability to provide housing of various types. The City has two current consultant contracts reviewing City fees and will review the required scope with one of these firms to complete this work in the near term.

Policy Alternatives

Staff has developed three Policy Alternatives for Council consideration.

1. Approve the fees at 100% cost recovery;
2. Phase in the fee increase to achieve 100% cost recovery over a period of time; or,
3. Approve fees at less than 100% cost recovery.

It is important to note that the City's preference is for dedication of developed neighborhood or community parkland to serve the new residential developments at the current standard of service for developments over 50 units, and in lieu fees for developments with 50 units or less. When parkland and improvements are provided at the prescribed ratio of 2.6 acres (MFA) or 3 acres (Quimby), no fees are due. Also, developers may receive credit for up to 50% of fees due for dedication of eligible, on site private open space and recreational amenities, and an additional 15% for housing developments for seniors, and low and moderate-income housing. All surrounding cities require parkland dedication and/or fees in lieu of parkland dedication which have had no known adverse impact on new residential housing development. Fees charged are one-time costs and are usually apportioned to the new residents of the new housing projects through sales price or rent amount.

Alternative 1 - Approve the fees at 100 percent cost recovery.

This policy alternative requires adoption of a resolution that makes the required statutory findings as supported in the Nexus Study and adopts the fees proposed allowable fees for 2019 in Table 5 below. Approval of the Resolution will update the new housing development impact fees due in-lieu of parkland dedication which were last updated (decreased) in July 2017. This alternative acknowledges that a significant fee increase of between 35%-46% for Quimby and 41-52% for MFA is warranted in order for the City to recover 100% of the anticipated costs associated with acquisition

and development of parkland under Quimby and MFA.

Table 5

Alternative 1 Fee Scenario.

Fee increased by 100% of cost recovery (allowable increase)

Area	Type	Quimby Act			Mitigation Fee Act		
		Existing Fee 2017	Allowable Fee 2019	% Incr.	Existing Fee 2017	Allowable Fee 2019	% Incr.
95050	Single Family	\$31,804	\$44,637	40%	\$27,195	\$40,093	46%
	Multi-Family	\$24,566	\$35,949	46%	\$21,007	\$32,290	52%
95051	Single Family	\$34,182	\$46,962	37%	\$29,201	\$42,108	43%
	Multi-Family	\$26,403	\$37,822	43%	\$22,556	\$33,912	49%
95054	Single Family	\$34,946	\$47,345	35%	\$29,845	\$42,439	41%
	Multi-Family	\$26,993	\$38,130	41%	\$23,053	\$34,179	47%

Based on state law, Council may implement the fees immediately after adoption of the Fee Resolution in the case of projects subject to Quimby (i.e. August 28, 2019), and 60 days after adoption of the Fee Resolution in the case of projects subject to MFA (i.e. October 26, 2019).

If the parkland dedication standards and fees are set at the Nexus Study Update justified levels, then the City can anticipate being able to maintain park service levels at current standards and receive 100% cost recovery for the acquisition and development of public parkland and recreational amenities. When fees are accepted in lieu of developed parkland dedication, the City will be able (under Quimby), to rehabilitate enhance and intensify use of existing neighborhood and community parks and amenities as well as (under MFA and Quimby) to acquire and develop new parks and recreational amenities.

Alternative 2 - Phase the fee increase to achieve 100% cost recovery over a period of time.

This policy alternative requires adoption of a resolution that makes the required statutory findings as supported in the Nexus Study as the basis for 100% cost recovery fees warranted under Quimby and MFA and adopts the fees proposed allowable fees for 2019 in Table 6 below. However, it phases in the park improvement component of the fee in the amount of \$1,335,000 (\$3,471 per capita) incrementally over a three-year period, 25% per year (\$868 in 2019, \$1,736 in 2020, \$2,604 in 2021 and the full amount of \$3,471 in 2022). The annual land valuation component would use the 12-31-2017 appraisal values for 2019; however, the land valuation component would be updated annually as prescribed by Code, using the 12-31-2019 land appraisal valuation in the calculation of 2020 fees, and the 12-31-2020 land appraisal valuation in the calculation of 2021 fees, and the 12-31-2021 land appraisal valuation in the calculation of 2022 fees. The annual land valuation may increase or decrease and will be available for public comment as prescribed in the Council approved

supplemental instructions. Future fees will be contained in a Council Resolution and applied to applications deemed complete after June 30 of each year.

Table 6 Alternative 2 Fee Scenario. Fee increased by 25% of total park improvement per capita value (\$3,471), per year Land valuation increase/decrease based on annual appraisals in 2020, 2021, 2022 (not shown)

Quimby Act						
Area	Project Typ	Existing	2019	2020*	2021*	2022*
95050	Single Famil	\$31,804	\$36,724	\$39,361	\$41,999	\$44,637
	Multi-Family	\$24,566	\$29,576	\$31,700	\$33,825	\$35,949
95051	Single Famil	\$34,182	\$39,049	\$41,687	\$44,324	\$46,962
	Multi-Family	\$26,403	\$31,449	\$33,573	\$35,697	\$37,822
95054	Single Famil	\$34,946	\$39,432	\$42,070	\$44,707	\$47,345
	Multi-Family	\$26,993	\$31,757	\$33,882	\$36,006	\$38,130
Mitigation Fee Act						
Area	Project Typ	Existing	2019	2020*	2021*	2022*
95050	Single Famil	\$27,195	\$32,179	\$34,817	\$37,455	\$40,093
	Multi-Family	\$21,007	\$25,916	\$28,041	\$30,165	\$32,289
95051	Single Famil	\$29,201	\$34,195	\$36,832	\$39,470	\$42,108
	Multi-Family	\$22,556	\$27,539	\$29,664	\$31,788	\$33,912
95054	Single Famil	\$29,845	\$34,526	\$37,164	\$39,801	\$42,439
	Multi-Family	\$23,053	\$27,806	\$29,930	\$32,055	\$34,179
* Actual fees calculated for 2020, 2021 and 2022 will vary from amounts above, and will use the annual land appraisal value, per Code, which may go up or down.						

Based on state law, Council may implement the fees immediately after adoption of the Fee Resolution in the case of projects subject to Quimby (i.e. August 28, 2019), and 60 days after adoption of the Fee Resolution in the case of projects subject to MFA (i.e. October 26, 2019).

Alternative 3 - Approve a fee less than 100% cost recovery.

This policy alternative requires adoption of a resolution that makes the required statutory findings as supported in the Nexus Study as the basis for 100% cost recovery fees warranted under Quimby and MFA, however it would set the amount of fees for each project type and Zip Code Area at some percentage less than 100% cost recovery as shown in the proposed column in Table 7 below. While the City would continue to adjust land valuation (increase/decrease) annually based on annual appraisal, it would not use the full 100% cost recovery value. This action will not allow the City to continue to provide new neighborhood and community parks at the current citywide park system standards to accommodate new residents' park and recreational facility demands.

Based on state law, Council may implement the fees immediately after adoption of the Fee Resolution in the case of projects subject to Quimby (i.e. August 28, 2019), and 60 days after adoption of the Fee Resolution in the case of projects subject to MFA (i.e. October 26, 2019).

Table 7**Alternative 3 Fee Scenario.**

Fee increased by TBD% of total allowable amount
(less than 100% cost recovery)

Area	Project Type	Quimby Act			Mitigation Fee Act		
		Existing Fee 2017	Allowable Fee 2019	Proposed	Existing Fee 2017	Allowable Fee 2019	Proposed
95050	Single Family	\$31,804	\$44,637	<i>TBD</i>	\$27,195	\$40,093	<i>TBD</i>
	Multi-Family	\$24,566	\$35,949	<i>TBD</i>	\$21,007	\$32,290	<i>TBD</i>
95051	Single Family	\$34,182	\$46,962	<i>TBD</i>	\$29,201	\$42,108	<i>TBD</i>
	Multi-Family	\$26,403	\$37,822	<i>TBD</i>	\$22,556	\$33,912	<i>TBD</i>
95054	Single Family	\$34,946	\$47,345	<i>TBD</i>	\$29,845	\$42,439	<i>TBD</i>
	Multi-Family	\$26,993	\$38,130	<i>TBD</i>	\$23,053	\$34,179	<i>TBD</i>

Implementation Schedule.

Fees have not been updated since June of 2017 and are normally updated annually to take effect with the start of each Fiscal Year (July 1). Since the item has been continued twice in 2019 and provided an additional four months of time for consideration, the Fee Resolution (Attachment 5) proposes an implementation schedule based on state law, that projects subject to the Quimby Act (such as subdivisions) would be effective immediately and imposed on housing development Projects with applications deemed complete after August 28, 2019, and that fees for projects subject to the Mitigation Fee Act (such as apartment complexes) would be effective 60 days after the effective date of the resolution and imposed on housing development Projects with applications deemed complete after October 26, 2019.

ENVIRONMENTAL REVIEW

The action being considered does not constitute a “project” within the meaning of the California Environmental Quality Act (“CEQA”) pursuant to CEQA Guidelines section 15378(b)(4) in that it is a fiscal activity that does not involve commitment to a specific project which may result in potential significant impact on the environment. In addition, the requirement of parkland dedication or collection of fees in-lieu may assist in the mitigation of impacts from new housing development projects.

FISCAL IMPACT

Based upon the anticipated residential growth through 2035, the City will need an estimated 73 to 86

additional acres of developed parkland to serve the new residents at the existing level of service (2.6 acres to 3 acres of developed parkland per one thousand residents). When fees due in-lieu of parkland dedication are consistently aligned with the current costs of land (valuation determined by appraisal) and to provide the current standard of park improvements and assets (determined by current design/construction costs to build parks with similar assets as included in the existing park system), then the program fees will be appropriately set to achieve a 100% cost recovery rate under the current market conditions. It is important to note that residential developers may receive up to 50% credit for including eligible private open space and recreational amenities.

Under current market conditions and values disclosed in the Nexus Study, the cost of land needed to be acquired is between \$289.5 million dollars if all under MFA and \$334 million dollars if all under Quimby at \$3.922 million average value per acre. The per capita cost varies by zip code area. The cost of park improvements to be constructed on that parkland is approximately \$98.5 million (\$3,471 per person, at \$1.335 million per acre). Depending upon the percent of cost recovery approved, actual fees collected may be lower. The total program value given the current assumptions over the life of the General Plan period is a total range of \$388 to \$432.6 million.

The actual amount in lieu fee revenue collected will vary based upon several factors: the actual amount of land dedicated by each housing project; the valuation of land used when the fees are set and updated; the value of existing developed parkland used in the formula; the density, number and type of new housing units built; and the amount of financial credit developers receive for eligible on-site private open space and recreation amenities (reduces remaining fees due in lieu of parkland dedication by 50%-65%).

While Quimby and MFA fees address capital budget needs for acquisition and development of new parkland, the City has pursued measures to reduce the impact of the ongoing operations and maintenance costs of the new parkland through other financing mechanisms, such as developer contributions, Community Facilities Districts, and/or park maintenance agreements with residential developers. This helps to address the impact of new parkland on the City General Fund Operating Budget. The City has also used other sources of funds such as Land Sale Reserve and the General Fund to address deficiencies in the existing park infrastructure and has explored new funding sources to address aged park infrastructure needs.

However, if fees in lieu of parkland dedication are not set at 100% cost recovery, the program will not be able to address and mitigate the impacts of additional residential housing nor allow the City to provide the same level of service for new parks and recreation facilities. Additional funds from the General Fund or other sources of capital will be needed to address the impacts of new residential housing growth. For example, if the fee component for park improvements is set/collected at less than \$1.335 million per acre, then the improvements on new parkland would be less than found in existing City parks, or alternative sources of funding would need to be identified and allocated to construct new parks at the existing standard level of improvement.

The anticipated cost of a consultant to conduct a future study (post 2020 Census) to evaluate small unit resident density issues and a feasibility study to study the effects of total development fee levels on developers' ability to provide housing of various types is unknown at this time, but both studies are expected to be in the \$100,000 range, and involve multiple departments' staff.

COORDINATION

This agreement has been coordinated with the Finance Department and the City Attorney's Office.

PUBLIC CONTACT

Public contact was made by posting the Council agenda on the City's official-notice bulletin board outside City Hall Council Chambers. A complete agenda packet is available on the City's website and in the City Clerk's Office at least 72 hours prior to a Regular Meeting and 24 hours prior to a Special Meeting. A hard copy of any agenda report may be requested by contacting the City Clerk's Office at (408) 615-2220, email clerk@santaclaraca.gov <<mailto:clerk@santaclaraca.gov>> or at the public information desk at any City of Santa Clara public library.

In addition, community meetings were held in 2018 and 2019 with community and residential development stakeholders. Attachments to this report were made available and posted on the City Website two weeks in advance of the Council meeting date (some have been available for longer periods of time), and a notice of the public hearing was published twice in the *Santa Clara Weekly* on March 27 and April 3, 2019. At the April 9, 2019 meeting, City Council opened the public hearing, and took testimony from one member of the public (Attachment 6), then Council voted to continue the item to May 21, 2019. On May 21, 2019, the item was continued to August 2019. Notice of the August 27 public hearing was published on August 14 and August 21, 2019 in the *Weekly*, a newspaper of general circulation in the City.

POLICY ALTERNATIVES

1. Adopt a resolution that approves fees at 100% cost recovery. This policy alternative makes the required statutory findings supported in the Nexus Study as the basis for 100% cost recovery fees warranted under Quimby and MFA. This alternative acknowledges that a significant fee increase of between 35%-46% for Quimby and 41-52% for MFA is warranted in order for the City to recover 100% of the anticipated costs associated with acquisition and development of parkland under Quimby and MFA.
2. Adopt a resolution that phases in the fee increase to achieve 100% cost recovery over a period of time. This policy alternative makes the required statutory findings as supported in the Nexus Study as the basis for 100% cost recovery fees warranted under Quimby and MFA. However, it phases in the park improvement component of the fee in the amount of \$1,335,000 (\$3,471 per capita) incrementally over a three-year period, 25% per year, or \$868 in 2019, \$1,736 in 2020, \$2,604 in 2021 and the full amount of \$3,471 in 2022. The annual land valuation component would use the 12-31-2017 appraisal values for 2019.
3. Adopt a fee resolution that approves fees less than 100% cost recovery. This policy alternative would need to approve the required statutory findings of the Nexus Study Update as the basis for fees warranted under Quimby and MFA but would set a fee at some percentage less than 100% cost recovery; the City would continue to adjust land valuation (increase/decrease) annually based on annual appraisal but not at 100% cost recovery.
4. Conduct a Feasibility of Residential Development Study that will evaluate the effects of total development fee levels on developers' ability to provide housing of various types.

RECOMMENDATION

Alternatives 2 and 4:

2. Adopt a Resolution Establishing the Average Per-Acre Land Values and Parkland In Lieu Fee Schedule for New Residential Development for FY2019-20 In Accordance with Title 17 ("Development") Chapter 35 ("Park and Recreational Land") of the Code of the City of Santa Clara with the exception that the total allowable amount for increases in park improvement values will be phased in over a three year period at 25% per year and the land appraisal will be conducted annually as required per City Code 17.35 and new fees effective July 1 of each year.
4. Conduct a Feasibility of Residential Development Study that will evaluate the effects of total development fee levels on developers' ability to provide housing of various types.

Prepared by: James Teixeira, Director of Parks & Recreation

Approved by: Deanna J. Santana, City Manager

ATTACHMENTS

1. Park and Recreational Facilities Development Impact Fee Update Study
Willdan Financial Services
2. Land Valuation Appraisal Report Schmidt 12-31-2017
3. Public Questions, Comments & Responses 2018-2019
4. Public Communications March 2018 thru February 2019
5. Resolution Establishing the Average Per-Acre Land Values and Parkland In Lieu Fee Schedule for New Residential Development for FY2019-20
6. Public Comment-April 9 Council Meeting
7. Post Meeting Material from May 21, 2019 Council Meeting